thriving democracy. However, I believe that we need to express this concern in a manner that acknowledges the accomplishments of the past, appreciates the challenges of the present, and carefully considers the options available to realize our hopes for the future.

## EXPLANATION OF THE DEPOSIT INSURANCE REFORM LEGISLATION

### HON. SPENCER BACHUS

OF ALABAMA

IN THE HOUSE OF REPRESENTATIVES

*Sunday, December 18, 2005*

Mr. BACHUS. Mr. Speaker, today, we have a great opportunity to make significant improvements in our Federal Deposit Insurance system. Our position is strong, as both the insurance fund and the banking industry are extremely healthy, making this the ideal time to fine tune the system and establish a strong footing going forward.

BASIC PRINCIPLES OF REFORM: FAIRNESS AND FLEXIBILITY

The two fundamental driving principles of reform are to provide fairness to all insured depository institutions by assessing each based on risk, and to promote greater flexibility by allowing the FDIC to manage the fund differently based on existing economic conditions.

The bill provides greater fairness to insured banks in many important ways. It authorizes the FDIC to revise its risk-based formula to reflect with greater accuracy the risk each institution poses to the insurance fund. In providing this authority, our Committee looked at examples provided by the FDIC to determine how the new system might work, including FDIC representations that show about 42 percent of all banks would likely remain in the lowest risk category. Because the very nature of bank loans involves risk, we expect the FDIC to form a reasonable system that encourages appropriate risk-taking, consistent with safe and sound banking, and with premiums at a level that protect the best run banks from being overcharged but don't inadvertently stop lending. In this bill, we make explicit that the size of the financial institution should not bar an institution from being in the lowest risk category. It is risk that matters, not size. We expect the FDIC to conduct assessments in such a timely manner that banks are able to plan for such an expense, thereby avoiding unexpected or untimely costs.

Secondly, the bill recognizes that about 10 percent of institutions have never paid a premium to the FDIC to support its operations. This has put a burden on those institutions that fully capitalized the insurance funds in the mid-1990s. This legislation provides that those institutions that capitalized the fund with initial credits in proportion to each institution's financial contribution to FDIC. The credits are intended to offset premium assessments for many years to come, Those institutions that have not financially supported the FDIC would not have these credits and therefore must begin to pay premiums to the FDIC. Moreover, should the insurance fund grow to the upper regions of the normal operating range for the FDIC, banks would be entitled to a cash dividend in proportion to their historic financial contributions.

In addition to promoting fairness, the bill provides the FDIC greater flexibility to manage the insurance fund. The current law constrains the FDIC from charging most banks when the reserve ratio remained above a certain level and forces the FDIC to charge high premiums (23 basis points) at times when it makes the least sense. Our bill corrects these problems by allowing the FDIC to manage the fund within a wide range, with the intention that assessments would remain reasonably constant and predictable.

Importantly, this bill is not intended to raise more money than what the FDIC would have collected under the old law. Nor is this bill intended to encourage the FDIC to build the fund to the highest possible level. In fact, we know that each dollar sent to the FDIC means that there are fewer dollars that can support lending in our communities. As we considered this bill, we heard testimony that suggested that each dollar sent to Washington means that eight dollars of lending is lost. We cannot afford to restrict lending in our communities just to have more money added to the nearly $50 billion already in the insurance fund.

To protect against the fund growing too quickly, the legislation provides an automatic braking system that would return as a dividend 50 percent of any excess when the reserve ratio of the fund is above 1.35 percent. It also caps the fund level, providing a 100 percent dividend when the reserve ratio exceeds the upper limit of the range at 1.50 percent. This assures that money will remain in our communities. And while we provided the FDIC some authority to suspend the 50 percent dividend under extraordinary circumstances where it expects losses over a one-year timeframe to be significant, our expectation is that this authority will be used rarely and reviewed carefully each year when the new designated reserve ratio is set. This exception should be temporary and not a regular event, and the FDIC must communicate to Congress and the industry its justifications.

The FDIC's development and implementation of a new risk-based assessment system should not negatively impact the cost of homeownership or community credit by charging higher premiums to prudently managed and sufficiently capitalized institutions simply because they fund mortgages and other types of lending through advances from Federal Home Loan Banks. The Gramm-Leach-Bliley Act took great care in trying to provide adequate funding resources for community financial institutions and insured housing lenders through expanding community institutions' access to Federal Home Loan Bank advances. The FDIC shall take into consideration the goals of the Gramm-Leach-Bliley Act with respect to Federal Home Loan Bank advances and the objectives of this Act when developing a risk-based premium system.

DESIGNED FOR THE FUTURE

Not only does the legislation provide fairness and flexibility, it also anticipates needed changes in the coverage levels over time. We know that inflation has cut in half the real value of the current insurance coverage since it was last changed in 1980. We also know that, as the baby boomers move into retirement, the current coverage level was inadequate to protect their life-long savings. Thus, this bill increased to $250,000 the insurance limit on retirement accounts.

The House has repeatedly voted overwhelmingly in favor of legislation that would automatically index coverage levels based on inflation. The other body has only recently passed deposit insurance reform. The indexing language included in the Senate reconciliation bill required the FDIC to "determine whether" to increase coverage based on the amount of inflation increase plus a long list of factors. Our compromise language calls on the FDIC and NCUA to consider just three narrow factors. Those factors are: (1) the overall state of the Deposit Insurance Fund and economic conditions affecting insured depository institutions; (2) potential problems affecting insured depository institutions; and (3) whether the increase will cause the reserve ratio of the fund to fall below 1.15 percent of estimated insured deposits. If the FDIC and NCUA elect not to increase coverage, they must make their case based on these three narrow factors. The key language in the compromise is that the FDIC and NCUA, "upon determining that an inflation adjustment is appropriate, shall jointly prescribe the amount by which" coverage "shall be increased by calculating" the amount of inflation. This change in language, from "determine whether" to "shall jointly prescribe" is a clear statement that Congress is establishing a presumption that the agencies will increase coverage if warranted by past inflation.

STRONGER THAN EVER

This legislation will make the insurance fund even stronger than it already is and, in combination with the extensive regulatory and supervisory authorities of the FDIC, ensures that the fund and the banking industry will remain strong for a very long time.

## EXPRESSING SUPPORT FOR THE MEMORANDUM OF UNDERSTANDING SIGNED BY THE GOVERNMENT OF THE REPUBLIC OF INDONESIA AND THE FREE ACEH MOVEMENT

### HON. SHEILA JACKSON-LEE

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

*Sunday, December 18, 2005*

Ms. JACKSON-LEE of Texas. Mr. Speaker, I rise in strong support of H. Res. 456, "expressing support for the memorandum of understanding signed by the government of the Republic of Indonesia and the Free Aceh Movement on August 15, 2005, to end the conflict in Aceh, a province in Sumatra, Indonesia." Let us begin by first thanking Congressman CROWLEY for his tireless work and steadfast leadership on this issue.

For over thirty years there has been armed conflict in the Indonesian province of Aceh between the Indonesian military and the Free Aceh Movement. The Free Aceh Movement had demanded independence while the Indonesian government has fought to maintain their control over the region. The fighting in the region has not only devastated the landscape, but has led to an estimated 15,000 deaths in the region.

Last December's tragic tsunami killed at least 165,000 people in Aceh. If something good can be taken from the horrible disaster, it is that the tsunami's destruction led the Indonesian government and the Free Aceh Movement to set aside their three decades of fighting to enable the rebuilding of Aceh.

With the help of former President Martti Ahtisaari of Finland, the parties agreed in July